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STATE FOR EEB/TPP/MTA, EAP/MTS, AND EAP/EP
NSC FOR DANIEL PRICE AND MICHAEL SMART

E.O. 12958: N/A
TAGS: [ECON](#) [ETRD](#) [KIPR](#) [PREL](#) [RP](#)
SUBJECT: SCENESETTER FOR DEPUTY NATIONAL SECURITY ADVISER DANIEL PRICE

¶1. (SBU) Summary: Embassy warmly welcomes Deputy National Security Adviser for International Economic Affairs Daniel Price to the Philippines. The relationship and spirit of partnership between the United States and the Philippines are strong. The U.S. is the Philippines' largest trading partner, the largest investor and the largest donor of grant foreign assistance. During your visit, you will meet with several key government officials and important figures in the Philippine business community. Our entire team looks forward to making your visit productive and useful. End Summary.

BACKGROUND

¶2. (U) The Philippines, with almost 90 million people, has one of the fastest-growing populations in Asia. Metro Manila, home to at least 12 million people, is the largest city in a country made up of over 7,000 mainly mountainous islands. Literacy (94%) remains high, although the standard of public education and other government services has declined in recent decades. Filipinos are mainly Roman Catholic (83%) or otherwise Christian (10%) with a Muslim minority (6%) based on the southern island of Mindanao and in Manila. Approximately 38 percent of Filipinos earn less than \$2 per day.

PHILIPPINE POLITICS

¶3. (SBU) Philippine politics is free-wheeling, focused primarily on the charisma of individual political leaders, and still largely oligarchic, with most wealth and political power concentrated among influential families. President Gloria Macapagal Arroyo assumed the Presidency in 2001 after a "people power" movement swept out her predecessor, whom she recently pardoned after he was convicted of corruption. She is a strong leader who has faced a series of challenges to her rule, including unsuccessful impeachment efforts and low-level military coup attempts. The President's political position improved after May 2007 elections gave her allies a large majority in the House of Representatives, decreasing any impeachment threat. With three years left in her term, the President appears intent on establishing her legacy, with a focus on the economy and jobs, infrastructure, and seeking stability and peace on Mindanao.

ECONOMICS AND TRADE

¶4. (U) The U.S. remains the Philippines' largest trading partner, with over \$17.3 billion in two-way merchandise trade. Major U.S. exports include electronics and agriculture. The U.S. is also the

largest investor here, with \$6.6 billion in equity. Texas Instruments broke ground this year on a \$1 billion facility to produce microchips at the former Clark Airbase, while AES, a Virginia-based power generation and utility company, announced the \$930 million acquisition of a large coal-fired power plant through the government's privatization scheme.

15. (U) The Philippine economy performed well in 2007. Although statistics for the entire year are not yet available, the economy is on track to grow at around seven percent for the entire year, the strongest growth and expansion in three decades. Unemployment and inflation are down, and government revenues are up. The peso soared against the dollar and climbed against other currencies, as well, on the back of respectable export growth and a surge in remittances by overseas Filipinos. These positive macroeconomic developments have occurred in spite of factors that in the past might have shaken business confidence or dampened performance, including rising fuel prices, repeated corruption allegations against the Arroyo Administration, coup plots, terrorist bombings, and an unruly legislature.

16. (SBU) There nonetheless remain substantial weaknesses in the government's ability to collect taxes, and much remains to be accomplished on the economic reform agenda, particularly on improving the investment climate. The Arroyo administration has an impressive agenda -- privatize the electric sector, build infrastructure, increase funding for education, liberalize civil aviation, reduce business red tape -- but is moving timidly on most of these initiatives. Embassy Manila is a strong advocate for economic reform and for the interests of U.S. business.

17. (U) Intellectual property rights protection remains a significant concern, and the Philippines remains on the U.S. Trade Representative's IPR Watch List. The Philippine government promotes IPR protection, and seizes IPR infringing materials including

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clothing, software, and optical discs, but the lack of prosecutions and inability to obtain convictions is a major problem.

18. (U) The Philippines is a member of the World Trade Organization, and is a signatory to its major agreements. However, over the past several years the Philippines has backed away from its former policy of unilateral tariff reduction, and has not been proactive in the Doha Round negotiations, especially on agriculture and market access. The Philippines participates in several trade-related groupings of developing states, including the G-20 and the Cairns Group.

COUNTERTERRORISM EFFORTS

19. (SBU) Three U.S.-designated terrorist organizations are active and dangerous in the Philippines, despite significant military success against them over the past two years. Parts of Muslim Mindanao remain a sanctuary for terrorists who are responsible for bombings in the Philippines and Indonesia and kidnapping and killing of Americans and Filipinos. A Joint U.S. Special Operations Task Force (JSOTF-P) of several hundred personnel provides direct support to the Philippine Armed Forces in Mindanao, sharing intelligence, advice, and assistance. The major thrust of U.S. development assistance is focused in conflict-affected areas of Mindanao through USAID to help reduce support for terrorists. The Philippine military has undertaken successful programs to help separate local populations from insurgents through extensive civil-military and humanitarian activities. Separately, the New People's Army of the Communist Party continues to extort, bomb and attack remote police and military outposts.

PEACE PROCESS IN MINDANAO

110. (SBU) Negotiations with the Muslim insurgency, under Malaysian auspices, are making headway toward establishing a larger Muslim

political entity within the Philippines that would determine its own governing structure. While significant progress has been made on the territorial borders of the new political entity, the challenge will be to bring together Mindanao's diverse Muslim, Christian and native communities. We are pressing for concrete progress on this complex agenda this year. Successful peace in Mindanao would make the Philippines a stronger, more outward-looking partner, while also denying terrorists ungoverned spaces.

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HUMAN RIGHTS: COMBATING EXTRA-JUDICIAL KILLINGS
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¶11. (SBU) President Arroyo has consistently expressed her commitment to resolve the problem of extra-judicial killings and has taken steps in this direction. While many of these deaths and disappearances are more likely attributable to local disputes than to military or police action, it is clear the government must do more to ensure these crimes are fully investigated and responsible parties -- whether or not they are connected to military or police -- are brought to justice. The government has created a police task force, special courts and an armed forces human rights office. Extra-judicial killings decreased dramatically in 2007, but more still needs to be done.

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<http://www.state.sgov.gov/p/eap/manila/index.cfm>

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